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Docket No. U-0000-94-165
ARIZONA CORPORATION COMMISSION
1200 West Washington
Phoenix, AZ 85007

As requested, Calpine has the following brief and concise comments on the proposed rulemaking.

Comment on R14-2-xxx4:

California is starting on January 1, 1998. Regulators need to allow the first phase of retail access, for 20% of Arizona's consumers, to start on that same date.

Comment on R14-2-xxx4 (A-1, B-1 & C):

Aggregated groups of consumers, that exceed 3 mw as a group, should be protected from being designated as a single customer in an effort to limit their purchasing power to 50% of their demand.

Comment on R14-2-xxx4 (B):

Move the date that 50% of Arizona customers can gain access to open markets up to 1/1/2000.

Comment on R14-2-xxx4 (E-1):

Calpine prefers Arizona consumers be allowed to participate on a first come, first served basis.

Comment on R14-2-xxx4 (E-3):

Do not limit a renewable energy program to solar. All renewable options should be offered equal opportunity.

Comment on R14-2-xxx4 (G):

Aggregated groups of customers should be allowed to participate in buy-through programs as one customer.

General Comments on the Stranded Investments Issue (R14-2-xxx7)

Stranded investment is above-market investment caused by the regulation, management decision, economic volatility or technological obsolescence. Above-market investments have been exposed by the efficiencies present in an open-access market. The open-access market has also created opportunity for increased profits for some companies who claim stranded investments. The bottom line in the utilities argument favoring stranded investment recovery is the protection of their stockholders' equity. The deregulated environment has exposed the stockholders to not only risk but also profit-increasing opportunity. If the utility stockholders want insurance to cover their loss of equity because of deregulation, the premium would have to be the benefits the company experiences from the same deregulation.

First, admit that any asset that is above-market is stranded.

Second, determine the mechanism for recovery of the stranded investment.

a) A predetermined time period should be designated for stranded investment recovery; five years seems to be the national favorite.

b) The next component would be the total amount of stranded investment. This number would be a variable, adjusted after-the-fact at the end of each calendar year to reflect the actual dividing line between what was a marketable asset and what wasn't. The first year's number for total stranded investment would be a calculated guess that would be compensated for with a ratchet mechanism included in the remaining four years of recovery. The fifth year would be a set dollar amount that would not be adjusted at the end of the five year recovery period.

Third, and the final component of the equation, is the distribution of responsibility. There are three classes that are affected: a) Stockholders, b) Ratepayers, and c) Taxpayers.

a) Stockholders. Stockholders have always had some culpability for the actions of the management of their company. The stockholders are responsible for management decisions; so, a portion of the recovery equations responsibility factor must be assigned to those stockholders.

b) Ratepayers. The regulatory factions in every state of the union have a direct responsibility for some of the above-market investments that have become visible and uncollectable without a stranded investment collection mechanism. There are regulatory assets created by agreements with regulatory bodies that need to be adhered to. Costs from some social, renewable energy, environmental and demand-side management programs, that were mandated by the regulatory body, need special treatment to make the utility whole. The ratepayer is responsible to the affected utilities for that portion of these stranded investments. In the case of renewable above-market assets, these projects will still be marketable if there is a mandate to maintain a percentage of renewable energy in every affected utility's supply portfolio and there is no less expensive renewable energy available.

c) Taxpayers. The third party that must assume responsibility for stranded investment is the taxpayers. The difference between the ratepayer and the taxpayer is that the taxpayer may very well be in a non-affected utility area, or be supplied by an affected utility that has no stranded investment. Why include this category? Some stranded investment was created by public sentiment, opinion and even apathy. Social and environmental issues fall into this category. Navajo Generating Station in Page, Arizona was required to install elaborate and expensive environmental equipment because of public, taxpayer demand. The reason they were required to install the equipment was public outcry about the air quality in the Grand Canyon. Studies showed that the westerly winds took the emissions from the plant directly away from the Grand Canyon. These studies showed that pollution from California was the real culprit. That equipment created a substantial investment that will need to be recovered. Taxpayers, irrelevant of their power supplier, are responsible for that portion of the stranded investment.

Comments on R14-2-xxx9:

The solar portfolio standard is a good concept with too narrow of a scope. Solar is a renewable, and to treat it separately from the other renewables, such as wind and geothermal, is not responsible. Solar would seem to be the frontrunner for development in Arizona because of 300+ days of sunshine, but the market should decide if that is the renewable of choice. Renewable energy is important, but their importance applies to all renewable sources, not just solar. Let the market, not the regulators, decide what renewable sources should be developed.

Respectfully submitted,

CALPINE POWER SERVICES COMPANY

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Special Projects

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